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Docket No. 3499-132

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

RECEIVED 12/7/01

In re Application of:	David Lawrence		
Filed:	July 31, 2001	Group Art Unit:	2164
Serial No:	09/919,413	Examiner:	n/a
For:	**ONLINE TRANSACTION RISK MANAGEMENT**		

PETITION TO MAKE SPECIAL UNDER 37 C.F.R. § 1.102

U.S. Patent and Trademark Office
P.O. Box 2327
Arlington, VA 22202

Sir:

Pursuant to 37 C.F.R. § 1.102, and in accordance with section 708.02 XI the Manual of Patent Examining Procedure (MPEP), entitled Inventions for Countering Terrorism, applicants hereby respectfully request a Petition to Make Special for the above-identified patent application.

The above invention contributes to countering terrorism by allowing financial institutions, government entities, and other organizations to evaluate the legal, regulatory, financial, and reputational risks associated with an online transation which can be critical to anti-terrorism in a timely and uniform fashion. Government and law enforcement agencies increasingly rely on "know your customer" diligence on the part of financial institutions in an effort to discover and interrupt terrorist activities. Traditional methods of evaluating risk associated with online transactions only quantify financial risk. As a result, legal, regulatory, and reputational risks go unnoticed. What is needed is a method and system to identify, assess, and manage the levels of legal, regulatory, financial, and reputational risks associated with an online transaction. High risk transactions that are blocked as a result of the present invention, or that are more closely monitored as a result of the present invention, will allow government and law enforcement agencies to better counter terrorist strategies and also enable financial institutions to manage risk associated with suspect transactions.

Petitioner presents all claims directed to a single invention, or if the Patent and Trademark Office (Office) determines that all of th claims are not obviously directed to a single invention, will make an election without traverse as a prerequisite to the grant of special status.

The following documents are enclosed in support of this Petition:

1. A copy of the above-identified application including all claims directed to a single invention.

2. A statement including a pre-examination search listing the field of search by class and subclass.

3. A copy of each reference deemed related to the subject matter encompassed by the claims of the above-identified application.

4. A detailed discussion of the references pointing out how the claimed subject matter is patentable over the references.

The Commissioner is hereby authorized to charge the required fee of $130.00 for a Petition to Make Special as set forth in 37 C.F.R. § 1.17(i), or any additional fees, or to credit any overpayments in connection with this communication, to Deposit Account No. 50-0521. A duplicate copy of this Petition is enclosed herewith.

Accordingly, it is respectfully requested that the U.S. Patent and Trademark Office grant this Petition to Make Special for the above-identified application.

Respectfully submitted,

Date: 12/06/01

JP Kincart

Joseph P. Kincart
Reg. No. 43,716

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200 Park Avenue
New York, NY 10166-0153
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STATEMENT OF FIELD OF SEARCH

A pre-examination search for the above-identified application was conducted in Class 235/379; 235/380; 340/825.33, 705/36; 705/35.

DISCUSSION OF REFERENCES

U.S. Patent 5,177,342 ('342)

The '342 patent to Adams is entitled "Transaction Approval System," and issued on January 5, 1993. The '342 patent describes a transaction approval system for systems employing transaction cards, such as those used to make a purchase. It includes the ability to dynamically adjust such elements as the transaction limit stored in the terminal to vary the level of risk at the terminal to be closer to the desired level of risk. The terminal will also generate and store a list of account numbers which might be invalid and should provide an on-line request for authorization.

Although the '342 patent relates generally to containing financial risk through the use of an electronic system, it does not generate nor assign to a transaction, a risk quotient reflecting the amounts of legal, regulatory, financial, and reputational risk in the transaction.

U.S. Patent 6,078,904 ('904)

The '904 patent to Rebane is entitled "Risk Direct Asset Allocation and Risk Resolved Cap for Optimally Allocating Investment Assets in an Investment Portfolio," and issued on June 20, 2000. The '904 patent describes a computer implemented system for allocating an investor's funds wherein said system determines the risk tolerance function of the investor. The risk addressed in the '904 patent relates generally to financial risk associated with an investment and whether the financial risk is tolerable to the investor. The '904 patent does not address the broader legal, regulatory, and reputational risks present for all participants in a transaction.

U.S. Patent 6,085,175 ('175)

The '175 patent to Gugel, et al. is entitled "System and Method for Determining Value at Risk of a Financial Portfolio," and issued on July 4, 2000. The '175 patent describes a system and method for analyzing financial risk data; in particular estimating value-at-risk (VAR) of a financial portfolio which includes an analysis of a distribution of sorted financial data samples to determine an accurate range of upper and lower limits of an expected value of VAR. Although the '175 patent determines a risk quotient indicative of financial risk for a single portfolio; it does not generate a rating reflective of the legal, regulatory, and reputational risks present for all participants in a transaction.

U.S. Patent 6,119,103 ('103)

The '103 patent to Basch, et al., entitled "Financial Risk Prediction Systems and Methods Therefor," and issued on September 12, 2000. The '103 patent describes a computer-implemented method for predicting financial risk, which includes receiving data pertaining to transactions performed on more than one financial account held by a given account holder and where each of the multiple accounts is issued by a different account issuer. The described method relates generally to scoring risk related to financial transactions by scoring of a first transaction data and a second transaction data based on a preexisting model to form a score for the account holder which is provided by the system. Although it evaluates financial risk based on the transactions of a single account holder; the '103 patent does not determine the legal, regulatory, and reputational risks associated with all participants in a transaction.

WO 01/55885 A2 ('885)

International publication date, August 2, 2001, entitled "Online sales Risk Management System", issued to Greener, et al., describes a computer-implemented method for providing risk management for online transactions. An exchange price for a foreign currency relative to a base currency is entered into a host computer which also receives data descriptive of one or more transactions involving the foreign currency that occurred within a predetermined time period. Currency is exchanged according to the entered price and the transaction amounts contained in the data. A risk exposure for the predetermined time period can be calculated. Transactions can include any quantifiable transaction such as an online sales transaction consummated over a computerized communications network. The risk exposure in the '885 patent relates to a financial risk associated with currency exchange, it does not determine the levels of legal, regulatory, or reputational risk associated with a transaction.

WO 0075836 ('836)

International publication date, December 14, 2000, entitled "Portfolio Accounting and Risk Management System", issued to Coppola, describes a method and system for managing investment portfolio risk on a computer system. Data is stored on a computer-readable medium, along with an equity value associated with a user's portfolio. A point risk value is determined for a potential investment. Risk scenarios are displayed showing proposed numbers of shares or contracts associated with the point risk value for a plurality of selected size risk values. Other risk characteristics may also be determined and displayed. The system and method may be embodied in a client/server system or in a stand-alone computer system. The risk addressed by the '836 patent is financial risk associated with potential investment. The '836 patent evaluates only financial risk for a single investment portfolio; it does not include the legal, regulatory, and reputational risks associated with a transaction.

Non-Patent Literature References:

1. A website www.paynetonline.com includes references that describe an online, automated system for members to obtain reports of pooled financial information for their use in assessing risks associated with certain financial transactions. The service offered allows members to share payment history with other members. One benefit of the shared information may be the ability to better determine a credit risk associated with a potential lessor. The website does not provide a system for assessing legal, regulatory, or reputational risks associated with a transaction.

2. Banasiak, Michael; "Don't Be Out-Scored by Your Competition", Credit and Financial Management Review, 2nd Quarter 2000. This reference describes the benefits to be derived from an automated credit scoring model in conjunction with a validation process implemented with a knowledge-based decision making system. Although the article relates generally to automated risk scoring, it does not disclose automated analysis and risk scoring associated with legal, regulatory and reputational risks related to an online transaction.

SUMMARY

None of the above references provides for or teaches a computer-implemented method for identifying, assessing, and managing the legal, regulatory, financial, and reputational risks associated with an online transaction. In particular, none of the above references teaches generating a risk quotient based on a weighted algorithm applied to a set of legal, regulatory, financial, and reputational risk factors. Similarly, it is not known to produce an aggregate risk rating for a group of transactions or group of participants.

Other aspects of the present invention that are novel include the ability to continually monitor and adjust the risk quotient associated with a transaction after consummation of the transaction. Additionally,

it is unique to suggest to an online market participant actions commensurate with a risk quotient or risk aggregate that might help that participant properly manage risk associated with a transaction.

Other embodiments of the present invention include a system and computer program for implementing the above methods.

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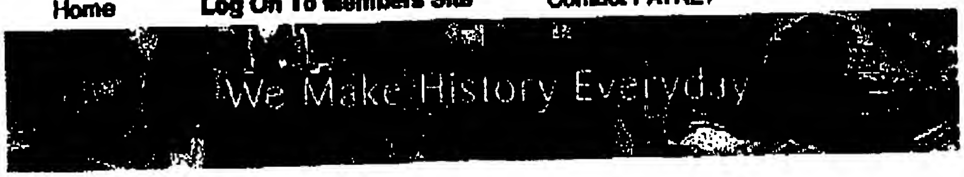

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What is the PAYNET™ Alliance?

The PAYNET™ Alliance: The Power of Cooperation

The PAYNET™ Alliance is a group of commercial finance companies who confidentially contribute their customer payment experiences to a database managed by PAYNET™. In exchange, Alliance members get exclusive access to the only online, comprehensive database of lease payment history information available anywhere. The Alliance's cooperative approach, pioneered by PAYNET™, revolutionizes the delivery of information to the commercial finance industry.

Who May Belong to the PAYNET™ Alliance?

Commercial Finance companies that want to make more informed credit decisions are invited to join. Participating companies must contribute their customer's payment history to become a member of the PAYNET™ alliance. By participating, commercial finance companies enjoy the network's enormous value proposition: unparalleled access to data for verifying the credit of customers and applicants.

Important Note: PAYNET™ ensures all data is secure. The data collected will never be used or sold for marketing purposes.

Why The PAYNET™ Alliance?

Payment history experience has traditionally been verified by manually calling references provided by the lease applicant or by using a third party credit-reporting agency. This current process is costly, tips off competitors about a pending transaction, and provides an incomplete credit picture of the applicant.

The PAYNET™ Alliance's cost-effective payment information services provide subscribers with such benefits as:

- Increased approvals
- Lower credit losses and delinquencies
- Better information for deal pricing
- Streamlined credit process

www.paynetonline.com

Corporate Info

PAYNET, Inc. manages the "Payment Information Network" for the commercial equipment finance industry, an industry that represents more than $550 billion in Net Assets. This network produces the nations' largest online, proprietary database of lease and loan payment history information used for credit decision purposes. The Payment Information Network currently has many leading commercial lenders as members, representing a substantial portion of the net assets in the industry. PAYNET, Inc. uses its proprietary technology and the power of shared data to increase profitability, to improve operational efficiency, and to reduce credit losses for commercial finance companies. Partners with PAYNET, Inc. include the Equipment Leasing Association, consulting firms and major lease accounting and software providers. Founded in 1999, the Company is headquartered in Skokie, Illinois.

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Press Releases

July 31, 2001
PAYNET™ Launches Online Payment History Database

May 10, 2001
PAYNET™ Names Ned Buchman IT Director Former ThoughtWorks SVP Is E-Business Expert

February 2, 2001
PAYNET™ Announces Partnership with Statistical Scoring Firm, Predictive Business Decision Systems

January 12, 2001
PAYNET, Inc. Announces Addition to Board, Alan Matsumura, Partner and Founder of Diamond Technology Partners

January 2, 2001
PAYNET™ Announces Addition to Board, Thomas Butler, Former President and COO of Discover Credit Card

October 23, 2000
PAYNET™ Debuts Online Source for Lease Payment Histories, Major Lessors Sign Letters of Intent

September 1, 2000
PAYNET™ Introduces PAYNET™, the Only Online Source for Lease Payment Histories, Partnership with ELA Formed

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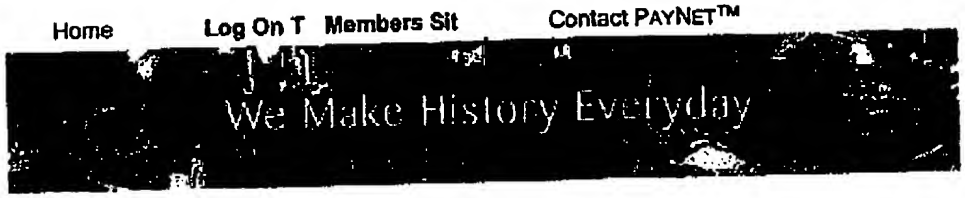

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PAYNET™ Introduces PAYNET™, the Only Online Source for Lease Payment Histories

Partnership with ELA Formed

Northbrook, IL, September 1, 2000 -- PAYNET, Inc. announces a strategic partnership with the Equipment Leasing Association for the launch and marketing of its flagship service, Payment Information Network or PAYNET™¾the only online service for commercial equipment leasing companies to obtain valuable lease payment history on lease applicants. The ELA-PAYNET™ agreement calls for ELA marketing support and visibility with the ELA membership.

"PAYNET™' partnership with The Equipment Leasing Association highlights the quality and integrity of the service," says Bill Phelan, President of PAYNET™. "The industry is in need of this network because, quite frankly, there is no better indicator of how a lease applicant will pay on his lease than how he is currently paying other leasing companies. PAYNET™ offers the critical credit variable and streamlines the credit process, allowing for higher transaction approvals and less write-offs through better informed credit decisions."

PAYNET™ will be demonstrated at the ELA convention this October in Palm Desert, California. The pilot program launches in 4th Quarter 2000, with an official launch set for early 2001.

"We are always looking for ways to help our leasing company members be more profitable," says ELA President Michael Fleming. "Credit is a key factor for lessor profitability, so our partnership with PAYNET™ allows us to support a system that will help companies achieve a more efficient and profitable credit process."

"ELA's involvement also ensures that the largest number of lessors are introduced to PAYNET™, recognize its value and participate," says Fleming. "Companies contributing their credit data helps not only the entire industry make better informed credit decisions," he notes. "But ultimately helps the quality of the leasing community including their individual companies."

Leasing company subscribers to PAYNET™ will provide a monthly download of their customers' lease payment experiences to PAYNET™. A one-time technological set-up is required, but thereafter the monthly downloads will be handled automatically through their existing accounting system ensuring that minimal staff time and technological resources are required. PAYNET™ subscribers then can access the pooled data and pull Payment History Reports online for a low fee per report. For confidentiality

reasons, names of leasing companies will not be associated with published credit data. This PAYNET™ data also will not be sold for marketing purposes.

Ultimately, subscribers to PAYNET™ can:

- Have access to data that supports more informed credit decisions, increased approvals, lower delinquencies and write-offs;
- Obtain data that is more relevant to their credit decisions than traditional sources of credit history;
- Receive accurate, quality information due to PAYNET™' data filtering process;
- Enjoy a streamlined credit process; and
- Eliminate the credit process of checking references with competitors, therefore tipping off the competition to pending deals.

PAYNET™ is working with The Revere Group, as well as Northern Consulting, CEO Associates, and major accounting and software providers to ensure that PAYNET™ technology is user friendly and compatible with existing lease accounting systems.

About PAYNET, Inc.

PAYNET, Inc manages the "Payment Information Network" for the commercial equipment finance industry, an industry that represents more than $550 billion in Net Assets. This network produces the nations' largest online, proprietary database of lease and loan payment history information used for credit decision purposes. The Payment Information Network currently has many leading commercial lenders as members, representing a substantial portion of the net assets in the industry. PAYNET, Inc uses its proprietary technology and the power of shared data to increase profitability, to improve operational efficiency, and to reduce credit losses for commercial finance companies. Partners with PAYNET, Inc include the Equipment Leasing Association, consulting firms and major lease accounting and software providers. Founded in 1999, the Company is headquartered in Skokie, Illinois. For more information, visit the PAYNET, Inc web site at www.paynetonline.com.

PAYNET™ Debuts Online Source for Lease Payment Histories

Major Lessors Sign Letters of Intent

Palm Desert, California, October 23, 2000 -- Today PAYNET, Inc. announces the first public demonstration of its flagship service, the PAYNET™ Alliance - a network of commercial finance companies contributing their lease payment history on applicants to an online database - at the ELA Convention being held this week in Palm Desert, California. In exchange, companies participating in the Alliance gain access to PAYNET™' proprietary information services. Several major lessors have signed letters of intent.

"We provide clients with a complete integrated solution for the credit operation," says Bill Phelan, President of PAYNET™, Northbrook, Illinois. "Most leasing companies could improve their credit processes, which keeps them from profiting as they should. Participating in the PAYNET™ Alliance gives lessors access to a broad universe of relevant credit information."

Several major commercial equipment finance companies have signed letters of intent. A partial list includes: Navistar Leasing Company (Rolling Meadows, Illinois) Volvo Commercial Finance LLC (Greensboro, North Carolina); Textron Financial Corp. (Providence); Key Equipment Finance Group (Superior, Colorado); De Lage Landen Financial Services, Inc. (Berwyn, Pennsylvania); Firstar Equipment Finance (St. Louis Park, Minnesota); GreatAmerica Leasing Corp. (Cedar Rapids, Iowa); Farm Credit Leasing Services Corp. (Minneapolis); Pitney Bowes Financial Services (Shelton, Connecticut); and Irwin Business Finance Corp. (Bellevue, Washington).

Leasing companies participating in the PAYNET™ Alliance will provide a monthly download of their customers' lease payment experiences to PAYNET™. A one-time technological set-up is required, but thereafter the monthly downloads will be handled automatically ensuring that minimal staff time and technological resources are required. PAYNET™ subscribers may access the pooled data and pull Payment History Reports online for a low fee per report. Downloads directly into lessors' credit scoring systems also are available.

For confidentiality reasons, names of leasing companies will not be associated with published credit data. Also, PAYNET™ data will not be sold for marketing purposes.

Ultimately, subscribers to PAYNET™ can:

- Have access to data that supports more informed credit decisions, increased approvals, lower delinquencies and write-offs;
- Obtain data that is more relevant to their credit decisions than traditional sources of credit history;
- Receive accurate, quality information due to PAYNET™' data filtering process;
- Enjoy a streamlined credit process; and
- Eliminate the credit process of checking references with competitors, therefore tipping off the competition to pending deals.

"Low market valuations in the leasing industry highlight the need for PAYNET™, which will ultimately help the viability of the industry through more informed decision-making," says PAYNET™' Chairman Dan Michalek. "Ultimately, PAYNET™ turns credit uncertainty into credit clarity, and inefficiencies into profitability."

PAYNET™ is working with The Revere Group, as well as Northern Consulting, CEO Associates, and major accounting and software providers to ensure that PAYNET™ technology is user friendly and compatible with existing lease accounting systems.

About PAYNET, Inc.

PAYNET, Inc manages the "Payment Information Network" for the commercial equipment finance industry, an industry that represents more than $550 billion in Net Assets. This network produces the nations' largest online, proprietary database of lease and loan payment history information used for credit decision purposes. The Payment Information Network currently has many leading commercial lenders as members, representing a substantial portion of the net assets in the industry. PAYNET, Inc uses its proprietary technology and the power of shared data to increase profitability, to improve operational efficiency, and to reduce credit losses for commercial finance companies. Partners with PAYNET, Inc include the Equipment Leasing Association, consulting firms and major lease accounting and software providers. Founded in 1999, the Company is headquartered in Skokie, Illinois. For more information, visit the PAYNET, Inc web site at www.paynetonline.com.

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Don't Be Out-Scored by Your Competition

By: Michael Banasiak

Abstract

The advent of e-commerce and the prospect of seamless integration along the order-to-cash continuum is making unprecedented demands upon the commercial credit fraternity. While most credit departments operate in an environment that is a collage of both paper-based and automated systems, e-commerce is inexorably leading us to a fully automated transaction-based model. The obvious problem is how to automate the paper-based tasks. Failure to do so effectively will create bottlenecks that have the potential to greatly diminish the utility of a business-to-business (b2b) e-commerce system.

The Credit Approval Bottleneck

One area that bears scrutiny in this regard is the process whereby a new commercial account is approved for credit. Many Internet sites that give commercial customers the option of entering orders on-line fail to automate the credit approval process for new accounts. As a result, once the new customer places their initial order, it must be held up while a credit investigation is completed. In some cases, the new customer is even asked to fill out a credit application on-line, but that information might just as well be faxed to the vendor's credit department. With no way to electronically extract pertinent data from the credit application and process it through a decision-making algorithm, many credit departments will simply print out the electronic application and process it manually.

One of the early lessons learned by established firms that have developed an e-commerce outlet is that the back office processes supporting both the traditional business model and the e-commerce model need to be the same. If they aren't, there is no shared benefit between the two business models; the e-commerce initiative will evolve its own overhead structure on top of that of the existing bricks and mortar enterprise. Besides the added costs, parallel processes create unnecessary complexity, which harms productivity and places critical burdens on resources and employees. The

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underlying problem for many companies, then, is not simply building a fully automated e-commerce site, but first automating the credit decision process for the traditional business in such a way that this process will also support e-commerce.

This will require a radical re-thinking of the way companies traditionally approve credit. While most credit departments can process orders from existing customers in short order, new account approval is much more problematic. It is not uncommon for the credit function to take more than 24 hours to sign off on a new customer's first order, and in some cases it can still take over a week. These hold-ups are seldom related to credit issues, but rather result from inefficient processes, heavy workloads and unnecessarily stringent review requirements. While automating or outsourcing the clerical tasks involved in new account processing will save some time, it is not enough. Only a redesigned process that is fully automated will suffice. The good news is that with proper implementation, the traditional business will most likely benefit from such a re-design in terms of increased customer satisfaction, lower costs, more sales, and a much better understanding of the receivables portfolio's risk characteristics. For these reasons, a fully automated credit approval process can also provide a competitive advantage over companies relying on traditional credit systems. However, in terms of e-commerce, a fully automated credit approval process is just part of the price of participation.

The Role of Credit Scoring in a Knowledge-Based Decision System

Three components are required to manage risk in an automated world: technology, information, and a knowledge-based decision system. By itself, information is not enough. In fact, most credit departments accumulate more information than they can process. Just being on-line with a credit bureau is not sufficient to optimize automated decisioning rates because information technology does not necessarily equate to information management. Technology provides the means to efficiently manage information, but something more is needed in order to automate the decision making process. A knowledge-based decision system, such as a credit scoring model, is the mechanism that enables credit process automation to work.

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The Different Types of Credit Scoring Models

Model	Description
Commercial	Used for approving credit to new business customers Used with firms that have established credit histories Derived from commercial credit bureau data Businesses that do not have enough information in their credit reports cannot be scored by a commercial model
Blended	Used for approving credit to new business customers Used with firms (usually small) for whom the commercial credit bureaus only have limited information Derived from a combination of commercial credit bureau data and the business principal's consumer credit bureau data Not appropriate for firms that do not have any commercial credit history
Consumer	Used for approving credit to new business customers Used with firms (usually startups or micro businesses) that do not have a commercial credit history Derived solely from the business principal's consumer credit bureau data Since there is no commercial credit data available, manual validation that this is a business may be required The use of consumer scoring models may increase as e-commerce expands, but these need to be used carefully due to consumer credit laws
Behavior	Used to review the credit of existing accounts and to set collection priorities Derived from internal A/R information which may be supplemented by commercial credit bureau data The most predictive and, if commercial credit bureau data is not required, the least costly

Commercial credit scoring models typically utilize information from a number of sources: commercial and consumer credit bureaus, business directories, credit applications, trade and bank

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references, industry credit groups, historical payment records, accounts receivable trial balances, and internal customer master files. Data from the appropriate sources must be fully integrated into the credit approval process in order to formulate a "good" decision. That necessitates a strong matching algorithm that automatically pulls data from the appropriate internal or external data sources.

However, for the data to provide effective credit intelligence, it must be analyzed and the validity of decisions derived from the data must subsequently be determined. Those tasks require a well-designed customer database that provides a full understanding of each existing customer's risk quotient. A scoring model can then be designed and validated by analyzing the historical performance of the customers in the receivables portfolio.

It should also be pointed out that over time the customer mix and risk characteristics of a receivables portfolio will change, requiring that scoring models be periodically updated. Economic factors also affect credit scoring models, which incidentally can provide a comparative advantage in a changing economic environment. In good times, credit scores can be used to increase approval rates and, in a slumping economy, to decrease losses.

Developing and implementing a scoring model, therefore, is not a static process. The accuracy of a credit model will deteriorate over time. Credit scoring will therefore always be a dynamic information management process. Moreover, having a validated credit scoring model does not guarantee the optimization of the credit decision process. Credit scores must be implemented within the context of a company's credit policies, which also change over time. The credit environment in which the scores are used is therefore subject to validation as well.

Validating Credit Policy

Internet commerce demands a high percentage of "automated credit decisions" of a knowledge based decision system in order to be a useful credit tool in an e-commerce environment. Even the most ardent proponent of credit scoring would question a scoring system's ability to make 100 percent of all credit decisions with no intervention from a credit analyst. Yet, there is a tendency by credit departments that have implemented scoring models to regularly override automated decisions. This is typically done when the credit staff lacks confidence in the quality of the automated decision or the company is under competitive sales pressure. Unfortunately, such actions tend to degrade a scoring model's performance, both from a risk assessment standpoint and in terms of throughput. Approving open terms for low scoring accounts, the model would otherwise reject, will contribute disproportionately to delinquency and losses as these low scoring accounts perform as indicated by the model.

Even so, there is some truth to the underlying assumption that because a credit score cannot consider every factor it cannot always yield a "good" decision (this argument asserts that a competent credit analyst is a better decision-maker the more complicated the credit decision). In fact, studies have borne this out. Credit scores are very good in identifying accounts at the extremes: the lowest credit

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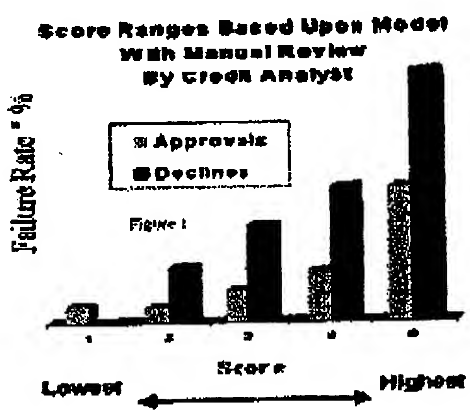
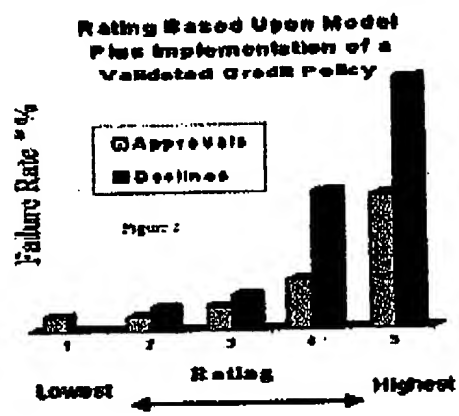
risks and the highest credit risks. Marginal accounts are a different matter. It is here that a credit analyst following credit policy guidelines can add value to the credit decision process. The key to identifying the range of accounts where a credit analyst's input can contribute insight is in validating the corporate credit policy on top of the credit scoring model. Without the validation, credit analysts will tend to approve too many deals for low scoring accounts as was explained above. The validation process helps identify the classes of accounts that do not warrant credit analyst intervention, and help refine the criteria credit analysts should look for before overriding a credit score.

Building an effective auto-decisioning system requires the integration of manual review by credit





* Failure rates are defined as bankruptcy or out of business with a loss to creditors within 4 years from score or rating date

analysts. In figure #1, the credit analysts overriding a scoring model rejected credit for many more customers with a score in the 1 to 3 range than were rejected by the validated credit policy results shown in figure 2. These rejections translate into lost sales. By the same token, the analysts approved slightly more accounts in the highest risk category (5) in figure #1 than were accepted with the validated credit policy (figure #2). These approvals translate into increased collection costs and bad debt expense. However, where the credit analyst's input was clearly validated was with the category 4 risk accounts. Using the scores as a guideline, the credit analysts were able to make a higher percentage of good decisions than would have been predicted by either the scores or the credit analysts separately.

The benefits from using credit scoring models within a validated credit policy are compelling. First

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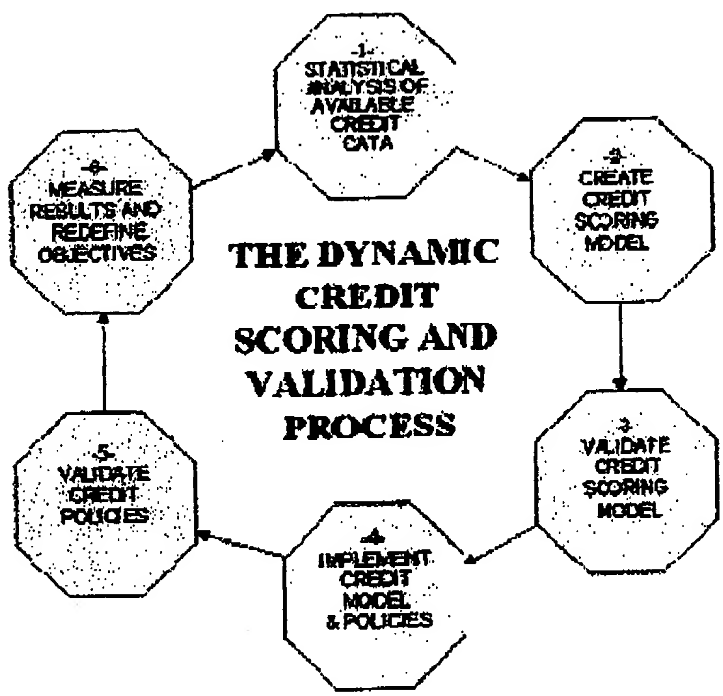
of all, the number of automated decisions is optimized. All customers who score above a validated threshold (typically set around the 40th percentile) are automatically approved without any additional credit analyst input. Likewise, accounts scoring in the lowest quadrant are denied open terms and so are redirected to alternative payment terms such as credit cards or cash-in-advance. The marginal scoring accounts that fall in-between are referred to a credit analyst (along with those few accounts for which there is not enough data to calculate a valid score). The second benefit, therefore, is significantly increased "good" decisions for this class of accounts. Furthermore, because the credit analysts are dealing with fewer accounts, most decisions can be made in a very short timeframe. In the leasing industry, companies that have implemented scoring models with a validated credit policy are setting the standard for response time on such accounts at 15 to 20 minutes or less. So while most, but not all, decisions are being made automatically, speed and quality are also being improved for those decisions that involve a credit analyst.



A final benefit is that validation makes it harder for the sales department to override credit decisions.

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In effect, statistical validation provides the credit department with objective justification for their actions. Once credit policies have been validated, any effort to override carries a very high probability of potential loss. No longer can sales personnel criticize the credit department for biased decisions. Of course, failure to approve open credit does not mean flat-out rejection of the deal, but should prompt all parties involved to explore alternative terms for making the sale.

The Impact of Credit Scoring Models on the Credit Profession

In the final analysis, finding a way to make a profitable sale should be the overriding goal of credit management. This is just as true for consumer credit as for commercial credit and as much for traditional businesses as for Internet enterprises. The purpose of credit management is not to avoid all risk, but to maximize profits. Toward that end, it is not surprising that a subjective approach to credit analysis will often fall short. While there have been skilled and experienced credit analysts who have consistently provided their employers with "good" decisions, the more people you have performing credit analysis and the higher the transaction volume per analyst, the more likely there will be inconsistent results and less than optimal performance. When it comes to e-commerce with its insistence on speedy decisions and its appetite for high transaction volumes, relying solely on the subjective abilities of individual credit analysts is not the answer. Nor will providing them with spreadsheet tools and written credit policies be sufficient to meet the challenge in a way that will achieve the dramatic improvements in performance that will be required.

The only viable alternative that can provide superior results while overcoming the twin challenges of speed and high transaction volumes is credit scoring models. Clearly, commercial credit scores provide vastly superior effectiveness and accuracy to that of manual systems. The opportunity this presents for the credit profession derives from the fact that scores provide optimal functionality within the context of a validated credit policy. Those credit managers who embrace scoring technology will realize greater influence over the sales approval process. However, those who resist the implementation of scoring technologies will find their influence within their organizations diminished.

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